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ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

SEC FILE NUMBER

8-49331

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/02 AND ENDING 12/31/02  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Cutler Securities, Inc.

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

1401 Brickell Ave., Suite 465

(No. and Street)

Miami

Florida

33131

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Glenn Cutler 305-371-7719

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Hoch, Frey & Zugman, CPA's

(Name - if individual, state last, first, middle name)

4875 North Federal Highway, Fourth Floor, Fort Lauderdale, FL

33308-4610

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

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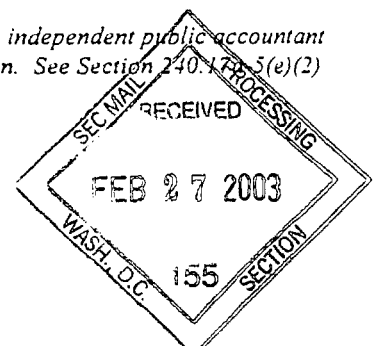
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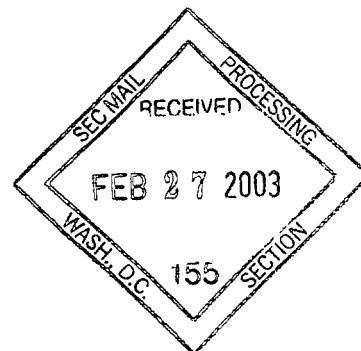
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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CUTLER SECURITIES, INC.  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2002  
AND INDEPENDENT AUDITORS' REPORT



CUTLER SECURITIES, INC.  
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FOR THE YEAR ENDED DECEMBER 31, 2002

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# HOCH, FREY & ZUGMAN

CERTIFIED PUBLIC ACCOUNTANTS  
A PARTNERSHIP OF PROFESSIONAL ASSOCIATIONS

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DAVID B. BLACK, CPA, P.A.  
FREDERICK S. WEINSTEIN, CPA, P.A.  
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EMAIL: admin@hfzcpa.com

January 16, 2003

Board of Directors and Stockholder  
Cutler Securities, Inc.

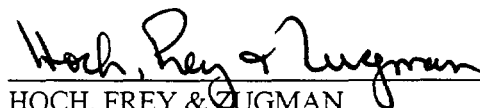
## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of financial condition of Cutler Securities, Inc., (an S corporation) as of December 31, 2002 and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cutler Securities, Inc. as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, III and IV is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
HOCH, FREY & ZUGMAN  
Certified Public Accountants

CUTLER SECURITIES, INC.  
STATEMENT OF FINANCIAL CONDITION  
DECEMBER 31, 2002

ASSETS

Cash	\$1,597,549
Receivable from clearing broker	21,765
Deposit with clearing broker	100,000
Prepaid expenses	1,210
Deposits	<u>3,725</u>
 TOTAL ASSETS	 <u>\$1,724,249</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

LIABILITIES

Accounts payable and accrued expenses	<u>\$ 113,317</u>
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STOCKHOLDER'S EQUITY

Common stock, par value \$.02 per share; 100,000 shares authorized, 520 shares issued and outstanding	10
Additional paid-in capital	200,888
Retained earnings	<u>1,410,034</u>
 Total Stockholder's Equity	 <u>1,610,932</u>

TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	<u>\$1,724,249</u>
--	--------------------

The accompanying notes are an integral  
part of these financial statements.

CUTLER SECURITIES, INC.  
STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2002

REVENUES

Commissions	\$ 8,545
Trading profits	<u>884,951</u>
Total Revenues	<u>893,496</u>

EXPENSES

Depreciation	1,956
Brokerage and clearing	43,879
Quotations, research and regulatory fees	165,919
General and administrative	108,019
Rent	8,705
Telephone	8,705
Salary and payroll taxes	355,698
Pension contribution	<u>80,000</u>
Total Expenses	<u>772,881</u>

Income From Operations	<u>120,615</u>
------------------------	----------------

OTHER INCOME/(EXPENSE)

Interest income	17,547
Other	2,393
Loss on disposal of furniture and equipment	<u>(2,408)</u>
Total Other Income/(Expense)	<u>17,532</u>

NET INCOME	<u>\$ 138,147</u>
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The accompanying notes are an integral part of these financial statements.

CUTLER SECURITIES, INC.  
STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balances – January 1, 2002	\$10	\$200,888	\$1,309,416	\$1,510,314
Net income			138,147	138,147
Distributions to stockholder	—	—	(37,529)	(37,529)
BALANCES - DECEMBER 31, 2002	<u>\$10</u>	<u>\$200,888</u>	<u>\$1,410,034</u>	<u>\$1,610,932</u>

The accompanying notes are an integral part of these financial statements.

CUTLER SECURITIES, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2002

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	<u>\$ 138,147</u>
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	1,956
Loss on disposal of furniture and equipment	2,408
Increase in prepaid expenses	(89)
Decrease in receivable from clearing broker	71,758
Increase in accounts payable and accrued expenses	21,059
Decrease in deposits	<u>1,500</u>
Total Adjustments	<u>98,592</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES 236,739

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of furniture, fixtures and equipment (1,892)

CASH FLOWS FROM FINANCING ACTIVITIES

Distributions to stockholder (37,529)

NET INCREASE IN CASH 197,318

CASH – January 1, 2002 1,400,231

CASH – December 31, 2002 \$1,597,549

The accompanying notes are an integral  
part of these financial statements.



CUTLER SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Cutler Securities, Inc. (the "Company") is a general securities broker/dealer registered in Florida. The Company is a fully disclosed introducing discount broker/dealer.

Revenue Recognition

Revenue is derived from trades introduced to the clearing broker, who completes the transactions with the customers and subsequently remits a commission to the Company. Also, the Company derives revenue from proprietary trades. Income from securities transactions and related expenses are recorded on the settlement date.

Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are stated at cost. Depreciation of these assets is computed over their estimated useful lives, five to seven years, on accelerated and straight-line methods.

Income Taxes

The Company, with the consent of its stockholder, has elected under the Internal Revenue Code, to be an S Corporation. In lieu of corporation income taxes, the stockholders of an S Corporation are taxed on their proportionate share of the company's taxable income. Therefore, no provision or liability for federal income taxes has been included in these financial statements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CUTLER SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002

NOTE 2 - NET CAPITAL REQUIREMENT

The Company, as a registered broker/dealer in securities, is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires that the Company maintain "Net Capital" equal to the greater of \$100,000 or 6 2/3% of "Aggregate Indebtedness", as defined. At December 31, 2002, the Company's "Net Capital" was \$1,573,978 and "Required Net Capital" was \$100,000. The ratio of aggregate indebtedness to net capital should not exceed 15 to 1. At December 31, 2002, the Company's ratio was .08 to 1.

NOTE 3 - CLEARING ARRANGEMENTS

The Company clears on a fully-disclosed basis through Fiserv Correspondent Services, Inc. Pursuant to the clearing agreement, the Company is required to maintain a certain minimum capital with the clearing broker dealer in the form of cash. The level is agreed upon from time to time based on the nature of the clearing activities. As of December 31, 2002, the aggregate required level under the clearing agreement was \$100,000.

NOTE 4 - FURNITURE, FIXTURES AND EQUIPMENT

Furniture, fixtures and equipment are summarized as follows:

Furniture and fixtures	\$ 6,277
Office equipment	<u>16,278</u>
	22,555
Less accumulated depreciation	<u>22,555</u>
FURNITURE, FIXTURES AND EQUIPMENT - NET	<u>\$ 0</u>

CUTLER SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002

NOTE 5 - COMMITMENTS

Operating Lease - The Company is a lessee for certain office space under a real estate lease agreement which expires November 30, 2003. Minimum lease payments for the year ending December 31, 2003 are \$23,430.

Rental expense for the year ended December 31, 2002 was \$8,705.

The Company has also entered into agreements to lease automobiles. Future minimum lease payments under these non-cancellable agreements are as follows:

2003	\$21,374
2004	21,374
2005	<u>7,239</u>
Total	<u>\$49,987</u>

NOTE 6 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash investments and receivables from the clearing broker.

The Company maintains a cash balance in a financial institution located in Miami, Florida. The balance is insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2002, the Company had no uninsured cash balances in financial institutions.

The Company maintains a \$100,000 deposit and a cash balance of \$1,600,966 in a firm deposit account with its clearing broker. These amounts are not insured by the Federal Deposit Insurance Corporation.

NOTE 7 - RETIREMENT PLAN

The Company maintains a money purchase pension plan covering all eligible employees meeting minimum eligibility requirements. Contributions are based on 25% of eligible compensation. The Company contributed \$80,000 to the Plan for the year ended December 31, 2002.

SUPPLEMENTARY INFORMATION

CUTLER SECURITIES, INC.  
SCHEDULE I  
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE  
SECURITIES AND EXCHANGE COMMISSION  
DECEMBER 31, 2002

NET CAPITAL	
Total stockholder's equity qualified for net capital	\$1,610,932
Allowable liabilities subordinated to claims of general creditors	<u>0</u>
Total Equity Capital and Allowable Subordinated Liabilities	<u>1,610,932</u>
DEDUCTIONS AND/OR CHARGES	
Non-allowable assets:	
Prepaid expenses	1,210
Deposits	<u>3,725</u>
Total Non-Allowable Assets From Financial Statements	<u>4,935</u>
NET CAPITAL BEFORE HAIRCUTS ON SECURITIES POSITION	1,605,997
HAIRCUTS ON SECURITIES	<u>32,019</u>
NET CAPITAL	1,573,978
COMPUTATION OF BASIC NET CAPITAL REQUIREMENTS:	
Minimum dollar net capital requirement of reporting broker or dealer	<u>100,000</u>
EXCESS NET CAPITAL	<u>\$1,473,978</u>
AGGREGATE INDEBTEDNESS:	
Accounts payable and accrued expenses	<u>\$ 113,317</u>
RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL	<u>.08 to 1</u>
RECONCILIATION WITH COMPANY'S COMPUTATION (INCLUDED IN PART II OF FORM X-17A-5 AS OF DECEMBER 31, 2002)	
Net capital, as reported in Company's Part II (unaudited) FOCUS report	\$1,599,229
Miscalculation of haircuts on securities	1,000
Audit adjustment:	
Accrued expenses	<u>(26,251)</u>
NET CAPITAL PER ABOVE	<u>\$1,573,978</u>

CUTLER SECURITIES, INC.  
SCHEDULE II  
STATEMENT PURSUANT TO RULE 17a-5(d)(2) OF THE  
SECURITIES AND EXCHANGE COMMISSION  
DECEMBER 31, 2002

The Company had no liability subordinated to claims of general creditors as of January 1, 2002. In addition, there were none in existence during the year ended December 31, 2002 and, accordingly, there are no changes to report.

CUTLER SECURITIES, INC.  
SCHEDULE III  
STATEMENT PURSUANT TO INFORMATION RELATING TO THE  
POSSESSION AND CONTROL REQUIREMENTS UNDER RULE 15c3-3  
OF THE SECURITIES AND EXCHANGE COMMISSION  
DECEMBER 31, 2002

Cutler Securities, Inc. is exempt from Rule 15c3-3 under (k)(2)(ii) because all customer transactions are cleared through another broker/dealer on a fully disclosed basis. During the year, the Company did not hold customers' funds or securities. Cutler Securities, Inc. was in compliance with the conditions of exemption.

CUTLER SECURITIES, INC.  
SCHEDULE IV  
COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS  
UNDER RULE 15c3-3 OF THE SECURITIES AND EXCHANGE COMMISSION  
DECEMBER 31, 2002

As of December 31, 2002, Cutler Securities, Inc. had no credit items that would result in a reserve requirement.



# HOCH, FREY & ZUGMAN

CERTIFIED PUBLIC ACCOUNTANTS  
A PARTNERSHIP OF PROFESSIONAL ASSOCIATIONS

DAVID B. ZUGMAN, CPA, P.A.  
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EMAIL: admin@hfczcpa.com

January 16, 2003

Board of Directors and Stockholder  
Cutler Securities, Inc.

## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL REQUIRED BY SEC RULE 17a-5 FOR A BROKER - DEALER CLAIMING AN EXEMPTION FROM SEC RULE 15c3-3

In planning and performing our audit of the financial statements and supplemental schedules of Cutler Securities, Inc. (an S corporation) for the year ended December 31, 2002, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "Commission"), we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by the Company that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and the procedures for determining compliance with the exemptive provisions of Rule 15c3-3. We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13 or in complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the Commission's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

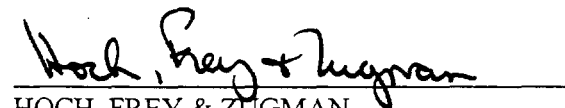
Cutler Securities, Inc.  
January 16, 2003  
Page Two

Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of the internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control component does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2002 to meet the Commission's objectives.

This report is intended solely for the use of the Board of Directors, management, the Securities and Exchange Commission and the National Association of Securities Dealers and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers and is not intended to be and shall not be used by anyone other than those specified parties.

  
HOCH, FREY & ZUGMAN  
Certified Public Accountants